

PHILIPPINES ECONOMIC WRAP-UP

APRIL 21-27, 2001

----- Summary -----

Financial markets took note of the April 25 arrest of former President Joseph Estrada on corruption charges, with a few nervous investors using it as an excuse to head for the exits. The government continues to have difficulties meeting revenue targets, but has kept the overall fiscal deficit in check by exerting tight controls over spending. Official results of the 2000 Philippine census reveals that population growth accelerated in the last half of the 1990's. And we provide updates on several developments in the local banking scene.

These weekly reviews are available on the Embassy's web site (<http://usembassy.state.gov/manila>). We provide a longer and more detailed review of the Philippine economy in our February 2001 Economic Outlook, which is now available on our web site. The next edition of the Outlook will be released in early June.

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Market and Policy Developments

FOREX REPORT

The detention of former Philippine president Joseph Estrada on April 25, and the subsequent protest actions that took place, affected the peso's value less than did the continued deterioration of the Japanese yen and the Indonesian rupiah. The arrest may have given traders an excuse to act on the weakness in the regional currencies, but it did not seem to drive trading. Trading volumes were moderate. From its April 20 close of P50.28/US\$, the peso depreciated to territory not seen since the former president was thrown out of office 3 months ago. It closed on April 27 at P50.87/US\$.

Exchange Rate Tables

Date	Weighted Average (Pesos/US\$)	Closing (Pesos/US\$)	Volume (Million US\$)
	-----	-----	-----
MAR 19	48.551	48.505	128.5
20	48.496	48.440	131.7
21	48.580	48.633	150.1
22	48.797	48.955	159.5
23	49.048	49.135	138.0
MAR 26	49.221	49.185	64.8
27	49.120	49.165	87.0
28	49.208	49.215	107.5
29	49.378	49.355	157.1
30	49.371	49.510	122.4
APR 02	49.717	49.770	104.0
03	49.743	49.730	140.0
04	49.880	50.160	137.9
05	50.182	50.175	139.9
06	50.372	50.200	160.6
APR 09	Markets Closed		
10	50.017	49.900	78.5

11	49.880	49.930	69.5
12	Markets Closed		
13	Markets Closed		
APR 16	50.086	50.200	99.3
17	50.238	50.300	105.3
18	50.173	50.110	162.0
19	50.054	50.060	136.5
20	50.218	50.280	141.1
APR 23	50.441	50.480	145.5
24	50.437	50.415	105.0
25	50.546	50.550	116.2
26	50.764	51.000	132.4
27	51.218	50.870	152.2

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

Despite a 50 basis point cut in Philippine central bank overnight rates announced last week, rates on T-bills at the April 23 auction dropped only marginally. Citing continued concerns about future moves in the peso-dollar rate as well as expecting increased government demand for funds to finance its deficit, traders only bid interest rates on the 91-day bill down 17.2 basis points (to 9.855%). The 182-day bill saw its interest rate fall the least (4.6 basis points to 10.959%); the biggest drop was in the interest rate on the 364-day bill (27 basis points to 11.368%). A full award was made for 91- and 364-day bills (P1 billion and P1.5 billion respectively), but only P1.48 billion worth of bids were received for the P1.5 billion worth of 182-day bills on offer.

Some traders cited the results of last week's sale of P9.6 billion worth of 4-year Treasury bonds as a reason for the small declines seen in T-bill rates. The 4-year bonds were sold at 14.25%, and many said that the resulting yield curve was too steep to allow short term rates to decline substantially in the near term. One trader noted that the Treasury Bureau was unlucky in its timing of the sale; the rate on the 4-year bonds could

have been significantly lower if the sale had been consummated the day after (rather than the day before) the central bank cut its overnight rates.

Domestic Interest Rates (in percent)

Treasury Bills

Auction Date	91 days	182 days	364 days
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MAR 19	9.656	10.356	11.340
MAR 26	9.059	10.331	10.957
APR 02	9.611	10.479	11.026
APR 10	9.959	11.005	11.638
APR 16	10.027	no sales	no sales
APR 23	9.855	10.959	11.368

Source: Bureau of the Treasury

Prime Lending Rates of 14 Expanded Commercial Banks

Date of Survey	Average	Range
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MAR 15	13.6914	11.50 - 15.25
MAR 22	13.5156	11.25 - 14.656
MAR 28	13.0484	10.75 - 14.50
APR 05	13.1808	10.75 - 14.611
APR 19	13.4611	11.00 - 15.027
APR 23	13.3529	10.75 - 14.855

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

Jittery investors, unconvinced that corporate earnings will recover anytime soon, used the uncertainty created by the detention of former President Estrada on corruption charges as an excuse to dump Philippine equities. Trading volumes remain quite weak, with only some P300 million worth of trades a day. In 1999, the average daily value of shares traded was more than P780 million.) From its April 20 close of 1428.54, the 33-

share Philippine Stock Index (PHISIX) rose on regional trends then sank back to close on April 27 at 1420.36.

Philippine Stock Exchange Index (PHISIX) and
Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)
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MAR 19	1507.52	374
20	1491.54	335
21	1471.56	277
22	1466.23	420
23	1431.57	486
MAR 26	1448.37	586
27	1446.99	401
28	1451.55	475
29	1430.16	346
30	1446.40	438
APR 02	1439.05	326
03	1452.26	292
04	1452.15	317
05	1460.67	588
06	1471.13	713
APR 09	Markets Closed	
10	1459.49	479
11	1445.26	445
12	Markets Closed	
13	Markets Closed	
APR 16	1453.84	236
17	1435.68	271
18	1425.97	507
19	1428.87	614
20	1428.54	411
APR 23	1437.16	259
24	1444.00	304
25	1462.18	431
26	1437.50	302
27	1420.36	398

Source: Philippine Stock Exchange

"UNDER-SPENDING" KEEPS FISCAL DEFICIT ON TRACK

According to preliminary estimates, total national government revenues for the January-March period fell short of the government's first-quarter target by P4.7 billion. However, while non-tax inflows were better than expected, tax collections were P9 billion off the mark -- with P8.3 billion of that shortfall reflecting lower-than-targeted collections by the Bureau of Internal Revenue (BIR). Although weak tax administration remains a nagging problem, some indicators suggest that a slowed first-quarter economic expansion also may have contributed to the BIR's "under-performance".

On the other hand, disbursements were P15.3 billion below the programmed level, partly because of protracted uncertainties over the fate of the 2001 budget and lower-than-expected interest payments. Government budget officials also told the Embassy that they may have "overestimated" the first-quarter disbursement plan. The lower-than-planned outlays contained the three-month fiscal deficit to P38 billion, well within the P48.5 billion ceiling programmed for that period. It remains to be seen, however, if "underspending" can continue to offset persistent revenue shortfalls given an already tight expenditure plan. Furthermore, "non-discretionary" budget items (i.e., personnel costs, transfers to local government units and debt servicing) make up a large share of the budget pie -- leaving limited room for fiscal maneuvering without sacrificing infrastructure investments and social development objectives.

NATIONAL GOVERNMENT CASH BUDGET PERFORMANCE
January - February 2001

(In Billion Pesos)			
Full-Year	January - March		
Program	Prog.	Actual	Diff.

REVENUES	568.2	126.0	121.3	(4.7)
BIR	408.1	93.4	85.1	(8.3)
Customs	105.1	21.4	20.7	(0.7)
Treasury	20.0	4.1	6.5	2.4
Other Offices	35.1	7.0	9.0	2.0
Privatization	7.0	0	0.2	0.2
Fees/Charges	21.2	5.5	7.0	1.5
EXPENDITURES	713.2	174.5	159.2	(15.3)
SURPLUS/(DEFICIT)	(145.0)	(48.6)	(37.9)	10.6

Source: Bureau of Treasury

POPULATION GROWTH ACCELERATES

On April 20, the National Statistics Office (NSO) released the official results of the 2000 Census. While preliminary figures suggested the rate of population growth in the Philippines had shrunk dramatically, the official figures revealed the fact that population growth actually accelerated. Between 1990 and 1995 (the previous census), population growth in the Philippines averaged 2.32% a year. The 2000 survey confirms that the Philippine population grew at a slightly faster 2.36% clip between 1995 and 2000. That placed the official population as of May 1, 2000 at 76,498,735. At that growth rate the Philippine population will expand at 1.7 million persons a year -- roughly 3 people every minute. (For comparison, consider this. The U.S. Census Bureau estimates that on July 1, 1999, about 1.685 million people lived in San Fransisco and about 1.756 million people lived in the greater Kansas City area. The population of the District of Columbia in the 2000 U.S. census was estimated at 572,059.) If this rate is sustained, the population of the country can be expected to double by 2029. (The full results of the survey, including regional and provincial breakdowns, are available at the NSO's internet web site, <http://www.census.gov.ph>.)

The Philippines lags behind its ASEAN neighbors in many statistics -- GDP growth, export growth, and so forth -- but now clearly takes the lead in population growth.

With the government struggling now to make ends meet by imposing austerity plans, the added pressure of having to provide schools, clean water, health care, streets, and jobs to an additional 1.7 million people a year suggests that the country needs to rethink its approach to family planning efforts.

BANKING NOTES

AMC for Banks' NPL's?: Despite the government's inability to provide financial support, a proposal to transfer banks' non-performing assets to a separate asset management company (AMC) or special purpose vehicle remains afloat. Lehman Brothers and Deutsche Bank reportedly are among those exploring the possibility of joint-venture arrangements with local financial institutions for the purpose. A former president of the Bankers' Association of the Philippines (BAP) indicated that banks appeared willing to put in capital for such special purpose vehicles to improve bottom lines and free funds tied up in loan-loss reserves. There are concerns, however, that the constitutional ban on land ownership by foreigners could stand in the way of an envisioned AMC's full success.

BPI Taking Steps To Expand Foreign Ownership?: In an April 23 disclosure to the Securities and Exchange Commission, publicly-listed Bank of the Philippine Islands (BPI) reported that shareholders Ayala Corporation and the Development Bank of Singapore (DBS) had effected the transfer of 333.8 million BPI shares to a joint venture holding company, ADHI (Ayala-DBS Holdings, Inc.). Under that arrangement, ADHI -- 60%-owned by Ayala and 40%-owned by DBS -- would end up with 22% of BPI, becoming the bank's second largest owner. Outside of ADHI, Ayala Corp. and DBS would continue to have direct holdings in BPI of about 26% and 9%, respectively.

BPI's disclosure to the SEC did not state the reasons for the stock transfers to ADHI. However, reports indicated that the move would allow the bank to take in more foreign investment -- a strategy to becoming a stronger regional player -- without breaching the 40% foreign-ownership ceiling prescribed by the General Banking Law

(GBL). This includes the possibility of more investments from DBS (possibly via an integration of the latter's 100%-owned local banking subsidiary into BPI). Before the transfer of stocks to the holding firm, foreign investments -- including that of DBS (which used to have a 20% or so stake) and other foreign investors (including Japan's Sakura Bank) -- reportedly were close to the 40% foreign-ownership limit. The Ayala-DBS holding firm would allow BPI to get around that limit through a GBL provision which states that the citizenship of a corporate stockholder follows the citizenship of the controlling stockholders.

Equitable PCI Bank: The Bangko Sentral ng Pilipinas is urging Equitable PCI (the country's third largest commercial bank asset-wise) to revamp its management team and to raise its capital base by P10-15 billion. These are prerequisites for the BSP to restructure obligations obtained by the bank from the BSP's liquidity windows. Equitable PCI has yet to fully recover from the stigma of its alleged close ties with then President Estrada and its role in the impeachment drama -- which resulted in substantial deposit/account withdrawals. Equitable PCI reportedly plans to increase its capital base by raising "tier 2" (quasi-equity) capital under recently-released BSP guidelines -- an arrangement which will not dilute present owners' shareholdings. The bank's major investors are the Go family (30%), and the government-run Social Security System and Government Service Insurance System (with a combined ownership of over 35%). BSP views the management revamp as an essential confidence-building measure for a successful capital-raising exercise.

Urban Bank Update: The Philippine Deposit Insurance Corporation (PDIC) has given the group of Export Industry Bank (Exportbank) and the National Association of Urban Depositors and Creditors (NAUD) up to May 15 to "submit important components of the rehab[ilitation plan]". According to PDIC officials, the "important components" include signed agreements with: the Social Security System for a P600 million equity infusion; Urban Bank's three major corporate depositors (Meralco, Petron, and San Miguel Corp.) on their acceptance of longer pay-out terms; and existing shareholders (representing the legal majority) on their equity claims and recovery value of

their shares. The PDIC board will then decide on whether Urban Bank may be rehabilitated and resume business without further risks to its depositors, creditors, and the general public. Exportbank-NAUD was the only party which tendered a bid to rehabilitate closed Urban Bank, Inc. (UBI) and its investment house subsidiary Urbanbank Investment, Inc. (UII) on the April 26 deadline set by the PDIC. An earlier, practically "done deal" with the Bank of Commerce fell through at the last minute due to concerns over legal issues surrounding Urban Bank's closure.

If the rehabilitation proposal is a "go", PDIC and the rehab proponents will execute a memorandum of understanding, providing among others for the turnover of Urban Bank to Exportbank. Under the proposal, there will be an initial functional merger between UBI/UII and Exportbank while necessary papers and approvals are in process, with a legal merger targeted on or before the end of the year. Meanwhile, PDIC officials said that NAUD has started a roadshow to convince depositors and creditors to convert 10% of their deposits/investments into equity and to restructure the balance over three years.